

**REPORT OF THE AUDIT OF THE
LESLIE COUNTY
SHERIFF'S SETTLEMENTS - 2008 TAXES**

**For The Period
May 24, 2008 Through September 28, 2009**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE LESLIE COUNTY SHERIFF'S SETTLEMENTS - 2008 TAXES

**For The Period
May 24, 2008 Through September 28, 2009**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlements - 2008 Taxes for the Leslie County Sheriff for the period May 24, 2008 through September 28, 2009. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Regular Taxes:

The Sheriff collected taxes of \$3,298,461 for the districts for 2008 taxes, retaining commissions of \$137,470 to operate the Sheriff's office. The Sheriff distributed taxes of \$3,145,836 to the districts for 2008 taxes. Taxes of \$198 are due to the districts from the Sheriff and refunds of \$17,422 are due to the Sheriff from the taxing districts.

Unmined Coal Taxes:

The Sheriff collected unmined coal taxes of \$1,159,775 for the districts for 2008 unmined coal taxes, retaining commissions of \$48,054 to operate the Sheriff's office. The Sheriff distributed taxes of \$1,111,441 to the districts for 2008 unmined coal taxes. Taxes of \$293 are due to the districts from the Sheriff and refunds of \$44 are due to the Sheriff from the taxing districts.

Report Comments:

- 2008-01 The Sheriff's Office Lacks Adequate Segregation Of Duties
- 2008-02 The Sheriff Should Improve Internal Controls Over Tax Processing And Reconciliation Procedures
- 2008-03 The Sheriff's Office Voided 1,200 Entries In The Computer System
- 2008-04 Daily Deposits Do Not Appear To Have Been Made Intact
- 2008-05 The Sheriff Should Not Advance Commission Payments To The Fee Account
- 2008-06 The Sheriff Should Properly Account For Exonerations And Payments Received For Partially Exonerated Tax Bills
- 2008-07 The Sheriff Should Prepare An Accurate And Reliable Delinquent List
- 2008-08 The Sheriff Should Collect Gas Penalties As Certified By The Department Of Revenue
- 2008-09 The Sheriff Should Not Allow Discounts For Franchise Collections
- 2008-10 The Sheriff Should Not Collect Payments For Prior Tax Cycle And Should Not Commingle Collections For Tax Cycles
- 2008-11 The Sheriff Should Strengthen Internal Controls Over The Collection Of Add-On Fees And Properly Document Waivers Of Penalties And Fees As Required By Statute
- 2008-12 The Sheriff Has A Known Deficit Of \$5,795 In His Official Tax Account
- 2008-13 The Sheriff Should Make Tax Payments In A Timely Manner
- 2008-14 The Sheriff Should Make Interest Payments To The School And The Fee Account In A Timely Manner
- 2008-15 The Sheriff Should Sign Official Tax Receipts
- 2008-16 Tax Bills Were Certified At An Incorrect Tax Rate

**EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
LESLIE COUNTY
SHERIFF'S SETTLEMENTS - 2008 TAXES
For The Period May 24, 2008 Through September 28, 2009**

Deposits:

The Sheriff's deposits as of December 9, 2008 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$97,928

The Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Jimmy Sizemore, Leslie County Judge/Executive

Honorable Paul Howard, Leslie County Sheriff

Members of the Leslie County Fiscal Court

Independent Auditor's Report

We have audited the Leslie County Sheriff's Settlements - 2008 Taxes for the period May 24, 2008 through September 28, 2009. These tax settlements are the responsibility of the Leslie County Sheriff. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the Leslie County Sheriff's taxes charged, credited, and paid for the period May 24, 2008 through September 28, 2009, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated September 15, 2010 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Jimmy Sizemore, Leslie County Judge/Executive
Honorable Paul Howard, Leslie County Sheriff
Members of the Leslie County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2008-01 The Sheriff's Office Lacks Adequate Segregation Of Duties
- 2008-02 The Sheriff Should Improve Internal Controls Over Tax Processing And Reconciliation Procedures
- 2008-03 The Sheriff's Office Voided 1,200 Entries In The Computer System
- 2008-04 Daily Deposits Do Not Appear To Have Been Made Intact
- 2008-05 The Sheriff Should Not Advance Commission Payments To The Fee Account
- 2008-06 The Sheriff Should Properly Account For Exonerations And Payments Received For Partially Exonerated Tax Bills
- 2008-07 The Sheriff Should Prepare An Accurate And Reliable Delinquent List
- 2008-08 The Sheriff Should Collect Gas Penalties As Certified By The Department Of Revenue
- 2008-09 The Sheriff Should Not Allow Discounts For Franchise Collections
- 2008-10 The Sheriff Should Not Collect Payments For Prior Tax Cycle And Should Not Commingle Collections For Tax Cycles
- 2008-11 The Sheriff Should Strengthen Internal Controls Over The Collection Of Add-On Fees And Properly Document Waivers Of Penalties And Fees As Required By Statute
- 2008-12 The Sheriff Has A Known Deficit Of \$5,795 In His Official Tax Account
- 2008-13 The Sheriff Should Make Tax Payments In A Timely Manner
- 2008-14 The Sheriff Should Make Interest Payments To The School And The Fee Account In A Timely Manner
- 2008-15 The Sheriff Should Sign Official Tax Receipts
- 2008-16 Tax Bills Were Certified At An Incorrect Tax Rate

Our audit was conducted for the purpose of forming an opinion on the financial statements referred to in paragraph one. The accompanying schedule listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

September 15, 2010

LESLIE COUNTY
PAUL HOWARD, SHERIFF
SHERIFF'S SETTLEMENT - 2008 TAXES

For The Period May 24, 2008 Through September 28, 2009

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 227,498	\$ 430,075	\$ 637,711	\$ 218,541
Tangible Personal Property	84,649	184,085	225,208	235,808
Fire Protection	5,435			
Increases Through Exonerations	13	23	36	12
Current Year Franchise Taxes	47,463	102,992	126,363	
Prior Year(s) Franchise Taxes	13,302	25,716	35,225	
Additional Billings	412	725	1,205	400
Oil and Gas Property Taxes	167,558	303,451	469,689	160,961
Omitted Gas Penalties	10,547	19,100	29,564	10,131
Penalties	5,445	10,332	14,915	5,656
Interest on Franchise Billing	404	781	1,070	
Adjusted to Sheriff's Receipt	7,684	18,673	20,784	20,791
Gross Chargeable to Sheriff	570,410	1,095,953	1,561,770	652,300
<u>Credits</u>				
Exonerations	54,508	98,842	152,729	52,474
Exonerated Gas Penalties	10,480	18,980	29,377	10,067
Discounts	5,723	10,798	15,720	6,734
Delinquents:				
Real Estate	17,149	30,978	47,122	16,148
Tangible Personal Property	344	748	916	353
Prior Year Delinquent Franchise Taxes	1	3	3	
Adjustment for Incorrect Tax Rate		1,775		
Total Credits	88,205	162,124	245,867	85,776
Taxes Collected	482,205	933,829	1,315,903	566,524
Less: Commissions *	20,781	39,688	52,636	24,365
Taxes Due	461,424	894,141	1,263,267	542,159
Taxes Paid	458,520	890,132	1,255,176	542,008
Refunds (Current and Prior Year)	5,838	10,984	15,546	208
Penalty Due State				196
Due Districts or (Refunds Due Sheriff) as of Completion of Audit	\$ (2,934)	\$ (6,975)	\$ (7,455)	\$ 139

*and ** - See Next Page.

The accompanying notes are an integral part of this financial statement.

LESLIE COUNTY
PAUL HOWARD, SHERIFF
SHERIFF'S SETTLEMENT - 2008 TAXES
For The Period May 24, 2008 Through September 28, 2009
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	1,972,558
4% on	\$	1,315,903

** Special Taxing Districts:

Library District	\$	(3,727)
Health District		(628)
Extension District		(1,321)
Soil Conservation District		(1,358)
City of Hyden District		<u>59</u>

Due District or (Refunds Due Sheriff)	\$	<u><u>(6,975)</u></u>
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LESLIE COUNTY
PAUL HOWARD, SHERIFF
SHERIFF'S SETTLEMENT - 2008 UNMINED COAL TAXES

For The Period May 24, 2008 Through September 28, 2009

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Unmined Coal Taxes	\$ 179,077	\$ 324,314	\$ 501,980	\$ 172,027
Unmined Coal Rebill Taxes	3,441	4,882	8,752	2,774
Increases Through Exonerations	351	636	984	337
Penalties	336	594	930	317
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Gross Chargeable to Sheriff	183,205	330,426	512,646	175,455
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<u>Credits</u>				
Exonerations	1,163	2,052	3,226	1,096
Discounts	3,225	5,826	9,041	3,094
Delinquents:				
Real Estate	2,044	3,600	5,666	1,924
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Total Credits	6,432	11,478	17,933	6,114
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Taxes Collected	176,773	318,948	494,713	169,341
Less: Commissions *	7,513	13,555	19,789	7,197
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Taxes Due	169,260	305,393	474,924	162,144
Taxes Paid	169,199	305,282	474,765	162,195
Refunds (Current Year)	7	12	19	7
Penalty Due State				14
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Due Districts or		**		
(Refund Due Sheriff)				
as of Completion of Audit	\$ 54	\$ 99	\$ 140	\$ (44)
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* and ** - See Next Page.

The accompanying notes are an integral part of this financial statement.

LESLIE COUNTY
PAUL HOWARD, SHERIFF
SHERIFF'S SETTLEMENT - 2008 UNMINED COAL TAXES
For The Period May 24, 2008 Through September 28, 2009
(Continued)

* Commissions:

4.25% on	\$	665,062
4% on	\$	494,713

** Special Taxing Districts:

Library District	\$	52
Health District		17
Extension District		26
Soil Conservation		4
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Due Districts or		
(Refund Due Sheriff)	\$	99
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LESLIE COUNTY
NOTES TO FINANCIAL STATEMENT

September 28, 2009

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Leslie County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

LESLIE COUNTY
 NOTES TO FINANCIAL STATEMENT
 September 28, 2009
 (Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of September 28, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of December 9, 2008, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$97,928

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2008. Property taxes were billed to finance governmental services for the year ended June 30, 2009. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 3, 2008 through September 28, 2009.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2008. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was June 16, 2008 through September 28, 2009.

Note 4. Interest Income

The Leslie County Sheriff earned \$1,622 as interest income on 2008 taxes. As of September 15, 2010, the Sheriff owed \$0 in interest to the school district and \$46 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Leslie County Sheriff collected \$35,866 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office. As of September 15, 2010, the Sheriff owed \$1,455 in 10% add-on fees to his fee account.

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENT
September 28, 2009
(Continued)

Note 6. Advertising Costs And Fees

The Leslie County Sheriff collected \$5,000 of advertising costs and \$1,334 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed \$4,370 of the advertising costs to the county as required by statute. Advertising fees of \$1,040 were transferred to the fee account and used to operate the Sheriff's office. As of September 15, 2010, the Sheriff owed \$630 in advertising costs to the county and \$294 in advertising fees to his fee account.

Note 7. Soil Conservation Tax Rate

For the 2008 tax collections, the real estate tax rate for the Soil Conservation district was certified at 0.011. The Sheriff's official receipt reflected the correct rate; however, the tax bills were printed and calculated at 0.01. Taxes charged and credited to the Sheriff have been calculated based on the incorrect rate, of 0.01, and a credit of \$1,775 has been recorded for the difference between the official receipt and the tax bills.

LESLIE COUNTY
PAUL HOWARD, SHERIFF
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS

For The Period May 24, 2008 Through September 28, 2009

Assets

Cash in Bank (All Tax Accounts)		\$	35,978
Collected Receivables:			2,009
Uncollected Receivables:			
Taxpayers	█ \$	3,780	
2009 Fee Account (commissions)		797	
State		44	
County		2,934	
School		7,455	
Library		3,727	
Health		628	
Extension		1,321	
Soil Conservation		1,358	22,044
Total Assets			60,031

Liabilities

Paid Obligations-		
Outstanding Liabilities-	\$	29,420
Total Paid Obligations		29,420
Unpaid Obligations-		
Due To Taxing Districts-		
State	139	
County	54	
School	140	
Library	52	
Health	17	
Extension	26	
Soil Conservation District	162	
City of Hyden	59	

LESLIE COUNTY
 PAUL HOWARD, SHERIFF
 SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS
 For The Period May 24, 2008 Through September 28, 2009
 (Continued)

Liabilities (Continued)

Unpaid Obligations- (Continued)

Overpayments Due Taxpayers	\$	1,191	
Refunds Due Taxpayers		31,842	
Improper Collections Due Taxpayers		219	
Advertising Fees Due County		630	
Add-on Fees Due Sheriff's Fee Account		1,115	
Advertising Fees Due Sheriff's Fee Account		294	
Interest Due Sheriff's Fee Account		46	
2009 Tax Account			
2009 Tax Collections Erroneously Deposited		121	
2008 Fee Account			
Transfer to Open Bank Account		150	
2009 Fee Account			
Erroneous Reimbursement		149	
Total Unpaid Obligations	\$	36,406	
Total Liabilities			\$ 65,826
Total Fund Deficit as of September 28, 2009			\$ (5,795)

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Jimmy Sizemore, Leslie County Judge/Executive
Honorable Paul Howard, Leslie County Sheriff
Members of the Leslie County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Leslie County Sheriff's Settlements - 2008 Taxes for the period May 24, 2008 through September 28, 2009, and have issued our report thereon dated September 15, 2010. The Sheriff prepares his financial statements in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Leslie County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Leslie County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Leslie County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting which is a basis of accounting other than generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying comments and recommendations as items 2008-01, 2008-02, 2008-03, 2008-04, 2008-05, 2008-06, 2008-07, 2008-08, 2008-09, 2008-10, and 2008-11 to be significant deficiencies in internal control over financial reporting.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies described above to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Leslie County Sheriff's Settlements - 2008 Taxes for the period May 24, 2008 through September 28, 2009, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations as items 2008-12, 2008-13, 2008-14, 2008-15, and 2008-16.

The Leslie County Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Leslie County Fiscal Court, others within the entity, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

September 15, 2010

COMMENTS AND RECOMMENDATIONS

LESLIE COUNTY
PAUL HOWARD, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period May 24, 2008 Through September 28, 2009

FINANCIAL STATEMENT FINDINGS:

2008-01 The Sheriff's Office Lacks Adequate Segregation Of Duties

While reviewing the Sheriff's internal control procedures, we identified a lack of adequate segregation of duties over recordkeeping receipts and disbursements processes, and reconciliations. These control deficiencies are present because one office clerk's duties include receiving tax payments from taxpayers, entering tax payments in the computerized system, preparing the daily deposit, and preparing the daily checkout sheet. This employee also has the authority to prepare disbursement checks. The office manager's duties include receiving tax payments from taxpayers, entering tax payments in the computerized system, preparing the daily deposit, preparing the daily checkout sheet, preparing the monthly tax reports, preparing disbursement checks, and performing the monthly bank reconciliations. While the Sheriff has stated his initials on bank statements are documentation of his review, this compensating control is not sufficient to mitigate the effects of the lack of adequate segregation of duties previously described.

Budget restrictions may limit the number of staff the Sheriff can hire. As a result, it may not be feasible to segregate accounting duties to different individuals. In this situation, compensating controls should be designed and implemented to mitigate the risks associated with the lack of adequate segregation of duties.

Specifically, the lack of adequate segregation of duties and/or compensating controls allowed the following material weaknesses and/or noncompliances to occur and not be detected, or corrected in a timely manner:

- Weak internal controls over tax processing and reconciliations resulted in discrepancies found in daily and monthly accounting records and reports.
- 1,200 entries voided from the computer system.
- Daily deposits do not appear to have been made intact.
- Improper advance of commissions to the fee account were made.
- Improper processing of exonerations and payments for exonerated tax bills.
- Inaccurate and unreliable delinquent tax list.
- Failure to properly collect gas penalties as certified by the Department of Revenue.
- Improper allowance of discounts on franchise collections.
- Improper collection of taxes for prior tax cycles and comingling of tax collections for different tax cycles.
- Weak internal controls over add-on fees and penalty waivers.
- A known deficit of \$5,795 in the Sheriff's official tax account.
- Tax payments not made in a timely manner.
- Interest payments not made in a timely manner.

A proper segregation of duties over accounting functions, such as receiving tax payments, preparing the daily deposit, preparing the daily checkout sheet, preparing the monthly tax reports, preparing disbursement checks, and reconciling the bank account monthly, is essential for preventing misappropriation of assets and/or inaccurate financial reporting. In addition, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

LESLIE COUNTY
 PAUL HOWARD, SHERIFF
 COMMENTS AND RECOMMENDATIONS
 For The Period May 24, 2008 Through September 28, 2009
 (Continued)

FINANCIAL STATEMENT FINDINGS (Continued):

2008-01 The Sheriff's Office Lacks Adequate Segregation Of Duties (Continued):

To adequately protect against misappropriation of assets and/or inaccurate financial reporting, the Sheriff should separate the duties involving collecting tax payments from customers, entering tax payments in the computer system, preparing deposits, preparing daily checkout sheets, preparing monthly tax reports, preparing disbursements, and reconciling the bank account. If, due to a limited number of staff, that is not feasible, strong oversight over these areas should occur and involve an employee not currently performing any of those functions. Additionally, the Sheriff could provide this oversight. If the Sheriff chooses to implement compensating controls, the Sheriff should document his oversight on the appropriate source document. The following are examples of other controls the Sheriff could implement:

- The Sheriff, or his designee, could periodically recount and deposit cash receipts. This could be documented by initialing the daily checkout sheet and deposit slip.
- The Sheriff, or his designee, could periodically compare batched totals, to the daily tax collection report and to the deposit slip, resolve any discrepancies, and document the review by initialing the deposit ticket.
- The Sheriff, or his designee, could compare total tax collections per the monthly reports to the totals per daily collection reports, resolve any discrepancies, and document his review by initialing the reports.
- The Sheriff could examine checks prepared by the office manager and compare checks to the monthly tax reports, resolve any discrepancies, and document the review by initialing and dating the monthly tax reports.

Sheriff's Response: The Sheriff has put in place compensating controls & a policy for collection process to improve controls. The voided payments were necessary to have tax payments reports correct.

Auditor's Reply: Based on auditor inquiry, payments were frequently voided because the Sheriff's staff entered payment dates incorrectly.

2008-02 The Sheriff Should Improve Internal Controls Over Tax Processing And Reconciliation Procedures

While performing the audit, we identified material weaknesses related to daily and monthly tax processing and reconciliation procedures that resulted in discrepancies in the Sheriff's tax records. According to the Sheriff's employees, triplicate receipts were used to record payments from taxpayers, issue receipts to taxpayers, and comprise daily batches. Tax payments were then manually entered into the computer system. Entry of payments may or may not have been entered in the computer system at the time payment was received, depending on workload and/or employee availability within the Sheriff's office. Deposits for each day's collections were prepared at approximately two or three o'clock in the afternoon, and delivered to the bank. Since the Sheriff's office was open until four o'clock in the afternoon, payments may have been received after the daily deposit was prepared. At the end of each day, triplicate receipts were batched and a daily checkout sheet was prepared. As a result, the batched total of tax collections (received through four o'clock) may or may not have agreed to the corresponding daily deposit (comprised of

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FINANCIAL STATEMENT FINDINGS (Continued):

2008-02 The Sheriff Should Improve Internal Controls Over Tax Processing And Reconciliation Procedures (Continued):

payments received after preparation of the previous day's deposit through approximately two o'clock of the current day). Similarly, batched tax collections for each day may or may not have been entered in the Sheriff's computer system. During busier times of the tax collection cycle, the office manager and/or clerks would enter tax payments in the computer system after normal office hours. As payments were entered, employees did not generate daily tax collection reports from the computer system to correspond to or agree to daily batches. Instead, batches may have been entered in groupings. Total payments entered, for one or more batches, were not reconciled to collections for corresponding batches and/or deposits. Similarly, batches were not reconciled to monthly tax reports. Auditors were also told employees disregarded payment dates, or methods when entering receipts in the computer system, so that computerized records may or may not have agreed to handwritten information reflected on triplicate receipts (i.e. payment date and/or cash or check). These ineffective controls hindered reconciliations in such a way that the auditors noted:

- The Sheriff's office obtained extensions for distribution of five (5) months of tax collections.
- The Sheriff's office paid the soil conservation district \$1,419 for franchise collections made in July. However, review of the Sheriff's monthly tax reports noted no franchise collections were due to the district for July collections.
- The Sheriff's office distributed unmined coal rebill collections due to the state for January collections from the unmined coal rebill account, but distributed collections for all other taxing districts from the 2008 regular tax account.

The Sheriff did not design internal control procedures to ensure errors or misstatements would be detected in a timely manner. The results of our audit noted a known deficit in the Sheriff's tax account; however, because of the internal control weaknesses previously described, auditors were unable to determine the nature or cause of the shortage.

Effective internal controls over daily and monthly tax processing should be designed to ensure accurate financial reporting and should be implemented consistently. Specifically, batches of triplicate receipts should agree to daily deposits and should be reconciled to computerized records on a daily and monthly basis. Reconciliation procedures should be sufficient to verify computerized records generated accurately reflect manual records, such as triplicate receipts and daily deposits.

We recommend the Sheriff design and implement internal control procedures to detect errors or misstatements in a timely manner. Such procedures should include batching triplicate receipts at the same time the daily deposit is prepared. Tax payments should then be entered in the computer system promptly so that computerized records can be reconciled to the corresponding daily batch, daily checkout sheet, and daily deposit. On a monthly basis, total collections per daily batches should be reconciled to the monthly tax reports and bank statements.

Sheriff's Response: Policies will Be in place to insure all deposits are reconciled to tax receipts on a daily basis.

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FINANCIAL STATEMENT FINDINGS (Continued):

2008-03 The Sheriff's Office Voided 1,200 Entries In The Computer System

In consideration of the weak internal controls over tax processing and reconciliation procedures, auditors inquired about the capability of employees to void and/or delete payments entered in the computer system. Auditors were informed that such a capability was available to at least three employees considered "administrators" and was utilized during the tax year to correct entry errors detected. The office manager stated entries voided for payment date errors were not reviewed by a second party. All other voided entries were reviewed when the void report was periodically generated during the tax cycle. The Sheriff's office maintained documentation supporting voided entries for ten (10) tax bills. No copies of the void payment report printed during the tax cycle were retained to document review and/or authorization of such changes.

Upon additional inquiry, the Sheriff's office provided auditors with a void payment report listing all entries voided/deleted from November 1, 2008 through September 14, 2009. This report listed 1,200 entries, totaling \$505,946. Auditors tested sixty-one (61) individual bill numbers listed on the report and noted that although entries had been deleted, payments had been re-entered for these sixty-one (61) bills. However, auditors also noted it was not uncommon for payment entries to be entered more than twice, and voided/deleted more than once. Additionally, it was not uncommon for payment dates entered in the computer system to be reflected in different months. For example, the following entries related to one bill, in the following order:

- Payment of \$138 entered on January date.
- Payment of \$138 deleted on January 6, 2009 at 5:42 PM.
- Payment of \$138 entered on January date.
- Payment of \$138 deleted on January 6, 2009 at 6:52 PM.
- Payment of \$138 entered on January date.
- Payment of \$138 deleted on January 6, 2009 at 6:58 PM.
- Payment of \$138 entered on December 31, 2008.

For this bill, \$138 is the face amount that should have been collected on or before December 31, 2008.

The combination of material weaknesses in internal controls, specifically the lack of adequate segregation of duties and weaknesses in tax processing and reconciliation (as described in comments #2008-01 and 2008-02) created the need for an unusually large number of entries to be voided.

As a result, collections may not have been reflected in the proper month of the tax cycle, which could have caused misstatements to discounts, penalties and/or Sheriff's add-on fees. Furthermore, the unusually large number of voided/deleted entries may have prevented the Sheriff's office from detecting other reporting errors.

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FINANCIAL STATEMENT FINDINGS (Continued):

2008-03 The Sheriff's Office Voided 1,200 Entries In The Computer System (Continued):

Effective internal controls over daily tax processing should be designed to ensure timely entry of payments that accurately reflect payment date and amount. The combination of these controls with effective reconciliations, as recommended in comment #2008-02, should minimize or eliminate the need to void/delete payments. In addition, employee actions to void/delete payments should be reviewed by the Sheriff for propriety.

We recommend the Sheriff limit the capability to void/delete payments to an individual who does not receive tax payments, or enter payments in the computer system. In addition, the Sheriff's office should maintain documentation supporting each entry voided. This documentation should be reviewed by the Sheriff for propriety.

Sheriff's Response: The voided payments were a direct result of the tax software & were necessary to distribute correct tax amounts for the correct amount.

Auditor's Reply: Based on auditor inquiry, payments were frequently voided because the Sheriff's staff entered payment dates incorrectly. The Sheriff's copy of the triplicate receipts were marked paid on the date payment was received from the taxpayer. These receipts could have been used as a reference when payments were entered in the tax software at a later date.

2008-04 Daily Deposits Do Not Appear To Have Been Made Intact

While performing the audit, we identified material weaknesses related to the preparation of daily deposits that suggests deposits were not made intact. Auditors noted:

- On six (6) different occasions, cash was retained from deposits. The office clerk stated this was a method for exchanging monies for the change fund; however, auditors were unable to substantiate this explanation because daily deposits did not always agree to collections per daily batches (as described in comment #2008-02) less amount of change fund.
- Daily deposits did not typically contain coins, but were comprised only of cash and checks. Auditors noted only three (3) deposits made during the tax cycle contained coins. The office clerk stated it was the procedure of the Sheriff's office to round cash collections to the nearest dollar.
- Daily deposits were modified frequently. Auditors noted thirty-four (34) instances during the tax cycle in which amounts recorded on deposit slips were changed.
- Cash was typically deposited in multiples of five (5). For example, deposits would contain cash amounts such as "\$295" or "\$3,915". Auditors noted one hundred twenty-two (122) of the one hundred forty-five (145) deposits made during the tax cycle contained cash in a multiple of five (5).
- Deposit slips were not itemized by checks.

In consideration of the uniqueness of tax amounts due from taxpayers, it appears unlikely that deposits contained all monies received from taxpayers. Furthermore, the existence of material weaknesses described in comment #2008-02, prevent auditors from determining the completeness of cash and check amounts deposited on any particular day.

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FINANCIAL STATEMENT FINDINGS (Continued):

2008-04 Daily Deposits Do Not Appear To Have Been Made Intact (Continued):

The Sheriff did not design internal control procedures to ensure deposits were made intact and agreed to daily batches and daily checkout sheets. In addition, the lack of adequate segregation of duties within the Sheriff's office allowed the irregularities noted above to occur.

Effective internal control procedures over daily deposits require that deposits be made intact and contain all cash and checks received for payments. Itemizing check amounts also facilitates the deposit preparation process so that totaling errors are less likely to occur.

We recommend the Sheriff design and implement internal control procedures to ensure daily deposits are made intact.

Sheriff's Response: All deposits will be intact. Checks will be listed individually All cash/check deposits will reconcile.

2008-05 The Sheriff Should Not Advance Commission Payments To The Fee Account

During our reconciliation of commission payments to the Sheriff's fee accounts, we determined the Sheriff improperly advanced commissions to the fee account before being earned and/or collected. January collections of regular, additional, and unmined coal rebills resulted in Sheriff's commissions of \$3,886; however, the Sheriff paid commissions to the 2009 fee account totaling \$18,906, resulting in an overpayment of \$15,020. This overpayment was not refunded to the tax account. Instead, the Sheriff did not pay commissions totaling \$3,735 collected during February, and only paid \$14,932 of March commissions totaling \$26,220 to the fee account. Collectively, after three months, the Sheriff's office was due net commissions totaling \$3.

Also for January, as stated above, the advance of commissions to the fee account for more than the Sheriff actually earned, likely contributed for the need to request extensions as noted in comment 2008-02. As a result, taxing districts did not receiving their payments timely, because disbursements could not have cleared the bank in a timely manner.

KRS 134.170(3) states, "Other than for investments and expenditures permitted by KRS 134.140, the Sheriff shall not apply or use any money received by him for any purpose other than that for which the money was paid or collected."

Commission amounts paid to the fee accounts should agree to commission amounts collected per monthly tax reports, exclusive of the school district. In no circumstances, should commissions be advanced to the fee account before being earned and/or collected.

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FINANCIAL STATEMENT FINDINGS (Continued):

2008-05 The Sheriff Should Not Advance Commission Payments To The Fee Account (Continued):

We recommend the Sheriff strengthen internal controls over reconciliations and disbursements to ensure commissions paid to the fee account are accurate and agree to monthly reports, exclusive of the school district. In those instances where it becomes necessary to advance tax monies to the fee account, the Sheriff could pay to the fee account, an advance on monthly tax commissions prior to the end of the month. When the monthly tax collection reports are prepared and taxes remitted to the taxing districts, the Sheriff could then reconcile the amount of commissions due by the amount previously advanced.

Sheriff's Response: We will comply.

2008-06 The Sheriff Should Properly Account For Exonerations And Payments Received For Partially Exonerated Tax Bills

The Sheriff did not properly process tax payments related to exonerations. According to the Sheriff's procedures, triplicate receipts were not used for exonerated tax bills (as previously described in comment #2008-02). Instead, the Sheriff's office generated three copies of computerized receipts from the computer system for the corrected (or decreased) taxable assessment. The Sheriff's office manually recorded payment details on these software generated receipts and included one copy with the daily batch, stapled a second copy to the triplicate receipts found in the tax books, and provided the third copy to the taxpayer. However, auditor review of the Sheriff's computerized and manual records, and triplicate receipts filed in the County Clerk's office determined payment dates and/or amounts recorded on triplicate receipts or manual records did not always agree to payment amounts recorded in the computer system.

In eight (8) instances, triplicate receipts, or manual notations recorded payments for original assessment amounts, but the computer system recorded payment amounts for amended (or decreased) assessment amounts. In these instances, the taxpayer paid the original assessment before the exoneration was applied, but did not receive a refund from the Sheriff. As a result, eight (8) taxpayers are due refunds totaling \$620. Also while reviewing exonerations, the auditor noted several other irregularities related to the processing of payments for exonerated tax bills. These include:

- Payments were not entered in the computer system in a prompt or timely manner; for example:
 - A manual receipt noted payment on November 3, 2008 and May 16, 2009. The payment was recorded in the computer system on June 15, 2009. The taxpayer's check was deposited by the Sheriff's office on November 3 2008.
 - A triplicate receipt noted payment on March 2, 2009. The payment was recorded in the computer system on April 16, 2009.
 - A copy of the exoneration attached to the triplicate receipt noted payment on June 5, 2009. The payment was recorded in the computer system on June 15, 2009.
 - A manual receipt noted payment on November 26, 2008 for the face amount. The payment was recorded in the computer system on April 16, 2009 for the discount amount.

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FINANCIAL STATEMENT FINDINGS (Continued):

2008-06 The Sheriff Should Properly Account For Exonerations And Payments Received For Partially Exonerated Tax Bills (Continued):

- A manual receipt noted payment on November 24, 2008. The payment was recorded in the computer system on May 18, 2009.
 - Two (2) manual receipts noted payment on November 26, 2008. The payments were recorded in the computer system on April 16, 2009.
- Payments for three (3) bills were entered in the computer system, voided from the system, and payment re-entered again.
 - Payment for one (1) bill was entered in the computer system at the original assessment amount, voided from the system, and payment re-entered for the amended (or decreased) assessment amount.
 - Payments for two (2) bills were entered in the computer system, voided from the system, entered a second time, voided a second time, and re-entered a third time.
 - One (1) exoneration was applied to a bill before being prepared by the PVA.
 - Payment for one (1) bill, at the amended (or decreased) assessment amount, was recorded paid in the computer system on November 21, 2008. The exoneration to decrease the assessment was not prepared by the Property Valuation Administrator (PVA) until November 25, 2008.
 - Payment for one (1) bill was entered in the computer system on November 30, 2008. The exoneration to decrease the assessment was prepared by the PVA on January 28, 2009. The payment was voided on February 14, 2009, but a refund check was not issued to the taxpayer until September 29, 2009.
 - A manual receipt noted a payment date of January 20, 2009, but did not specify an amount collected. Payment for this bill was entered in the computer system on January 20, 2009. The Sheriff's office erroneously applied an exoneration, and voided the payment from the software on June 15, 2009; however, the Sheriff's office did not reimburse the taxpayer for the voided payment.
 - Exonerations for four (4) unpaid bills were not properly reduced from the delinquent list. For example, if an original assessment of 10,000 was exonerated by the PVA to a value of 5,000, the Sheriff's exoneration list properly reflected a decrease of 5,000; however, the delinquent list incorrectly reflected an uncollected assessment of 10,000 (as described in comment #2008-07).

The combination of material weaknesses in internal controls, specifically in the areas of tax processing and reconciliation (as described in comment #2008-02) and the ability of employees to void payments in the computer system, allowed irregularities related to exonerations to occur and not be detected by the Sheriff's office.

As a result, auditors have determined at least eight taxpayers are due refunds. Additional refunds may be due taxpayers; however, discrepancies in the Sheriff's records have hindered auditors from making such additional conclusions.

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FINANCIAL STATEMENT FINDINGS (Continued):

2008-06 The Sheriff Should Properly Account For Exonerations And Payments Received For Partially Exonerated Tax Bills (Continued):

Proper processing of exonerations and payments received for partially exonerated bills include recording accurate payment dates and amounts on both manual records and in the tax processing software. Accordingly, since payments related to exonerations are processed with other collections, daily reconciliation procedures should ensure manual records agree to computerized records and daily deposits. Such effective controls would eliminate the need to void and re-enter payments. In the event that the taxpayer pays the original assessment amount before an exoneration is applied, the Sheriff's office should refund the taxpayer the difference between the original assessment and the amended assessment.

We recommend the Sheriff design and implement control procedures to ensure exonerations and payments received for exonerated tax bills are processed in a timely manner, and reflect actual payment amounts received.

Sheriff's Response: The weakness of our computer software made it necessary to void payments on a regular Basis. We are working to resolve this issue.

Auditor's Reply: Proper processing of exonerations of paid tax bills does not require voiding payments; instead original payment amounts should be used to document and support refunds issued to taxpayers. In addition, the action to void payments unnecessarily distorts the total amount of taxes collected, as reflected on daily and monthly reports.

2008-07 The Sheriff Should Prepare An Accurate And Reliable Delinquent List

During the course of the audit, the auditor obtained three versions of the delinquent listing. The original listing was certified by the Sheriff to the County Clerk on the tax sale date. The second "amended" listing was provided by the Sheriff's office and had been corrected for errors the Sheriff identified on the original listing. The third and final listing was provided to the auditor by the tax processing software company. Auditor comparison of the three listings noted the following:

- Although individual delinquent tangible bills were certified to the County Clerk, the delinquent listing did not include these tangible bills.
- Neither the original nor amended listing provided to the auditor correctly totaled real estate delinquents.
- Assessment amounts for thirty-eight (38) individual bills on both the original and amended listings were overstated by homestead or disability exemptions of 31,400 each.
- Assessment amounts for four (4) individual bills on both the original and amended listings were overstated by exoneration (decrease) amounts. For example, if an original assessment of 10,000 was exonerated by the PVA to a value of 5,000, the Sheriff's exoneration list properly reflected a decrease of 5,000; however, the delinquent list incorrectly reflected an uncollected assessment of 10,000.

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FINANCIAL STATEMENT FINDINGS (Continued):

2008-07 The Sheriff Should Prepare An Accurate And Reliable Delinquent List (Continued):

- The original listing included an additional billing for which the tax collection cycle had not yet expired. The taxpayer subsequently paid the bill in the Sheriff's office on August 21, 2009 during the 5% penalty period.
- All listings omitted a bill that was paid with a check returned for insufficient funds. Since the Sheriff was unable to make collection for this bill, it should have been included on the delinquent tax list.

Personnel in the Sheriff's office stated that prior to being certified to the County Clerk, the delinquent list had been reviewed for accuracy of bill numbers and taxpayer names, but had not been verified for accuracy of individual assessment amounts.

The Sheriff's office did not verify the accuracy of the delinquent tax listing generated by the computer system. Although the computer system was responsible for the totaling errors and individual bill assessment errors described above, the Sheriff's internal controls should have been designed and implemented to detect such misstatements. Records maintained outside the computer system, such as triplicate receipts, would have provided accurate and sufficient documentation to verify the accuracy of software generated data.

As a result, the delinquent assessment amount used for preparation of both the State and County Settlement was incorrect.

The delinquent listing certified by the Sheriff to the County Clerk should, individually and in total, accurately reflect delinquent assessment amounts. In addition, the delinquent listing should not include bills still open to collection in the Sheriff's office.

We recommend the Sheriff strengthen internal controls over the reporting of delinquent tax bills. The Sheriff's office should verify the accuracy of the delinquent listing, by individual bill number and in total, to ensure it is complete and accurate. In addition, the Sheriff should be careful not to include bills still open to collection. Furthermore, we recommend the Sheriff consult with the County Clerk to ensure the additional bill certified as delinquent, but subsequently collected by the Sheriff is properly resolved in the County Clerk's office.

Sheriff's Response: We will comply.

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FINANCIAL STATEMENT FINDINGS (Continued):

2008-08 The Sheriff Should Collect Gas Penalties As Certified By The Department Of Revenue

The Sheriff did not collect penalties certified by the Department of Revenue on omitted gas billings. When an omitted billing is certified by the Revenue Cabinet, a penalty is automatically added to the face amount of tax due and included on the bills prepared by Revenue. The Sheriff's office stated to auditors that instead of mailing the tax bills prepared by Revenue, they chose to mail tax bills generated in the Sheriff's office. However, the bills did not compute the penalty amount due. As a result, the Sheriff did not collect penalties from two (2) taxpayers, totaling \$438.

The lack of adequate segregation of duties within the Sheriff's office (as described in comment #2008-01) allowed the collection shortage described above to occur and not be detected. As a result, the Sheriff did not collect penalties from two (2) taxpayers, totaling \$438, and taxing districts did not receive the appropriate amount of collections.

The Sheriff should collect taxes, and all applicable penalties, as certified by the Department of Revenue. Effectively designed and implemented internal controls would have ensured tax bills mailed to taxpayers properly reflect amounts due. In addition, controls should have verified amounts paid agreed to amounts due, as certified by the Department of Revenue.

We recommend the Sheriff contact the two (2) taxpayers identified and collect the additional penalties due from each as applicable. These receivables are necessary in order for the Sheriff to properly settle the liabilities as reflected on the Schedule of Excess Of Liabilities Over Assets. In the future, the Sheriff should implement internal control procedures to ensure billings provided to taxpayers reflect total amounts due. Procedures should also require comparison of amounts due to amounts paid.

Sheriff's Response: This was a weakness of our computer software.

Auditor's Reply: Gas bills prepared by the Department of Revenue properly reflected the penalties due and could have been mailed to taxpayers. The Sheriff's office chose to mail bills generated by the computer software. It is a weakness within the Sheriff's office that personnel did not compare software generated bills to the bills prepared by the Department of Revenue.

2008-09 The Sheriff Should Not Allow Discounts For Franchise Collections

The Sheriff improperly allowed two (2) franchise companies to pay taxes due at a discount. The tax bills certified to the Sheriff from the County Clerk reflected the correct, face amount due. However, the Sheriff's office mailed tax bills that incorrectly offered a discounted amount to franchise companies, if paid within thirty (30) days. As a result, two companies collectively received discounts totaling \$3,342.

The lack of adequate segregation of duties within the Sheriff's office (as described in comment #2008-01) allowed taxpayers the opportunity to pay improperly discounted amounts. By doing so, taxing districts and the Sheriff's fee account did not receive the appropriate amount of collections.

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FINANCIAL STATEMENT FINDINGS (Continued):

2008-09 The Sheriff Should Not Allow Discounts For Franchise Collections (Continued):

Both companies were subject to the provisions of KRS 136.050(2), which does not provide a discount for early payment. Furthermore, the Sheriff's internal controls should have ensured that billings mailed to taxpayers reflected the correct amount due, as certified by the County Clerk.

We recommend the Sheriff contact the two (2) franchise companies noted and collect the discount amount as applicable. These receivables are necessary in order for the Sheriff to properly settle the liabilities as reflected on the Schedule of Excess Of Liabilities Over Assets. In the future, the Sheriff should implement internal control procedures to ensure billings provided to taxpayers reflect total amounts due. Procedures should also require comparison of amounts due to amounts paid.

Sheriff's Response: Invoices for the additional payments will be sent. Again, office staff created the Bill in our software & did not realize a discount had been made.

2008-10 The Sheriff Should Not Collect Payments For Prior Tax Cycle And Should Not Comingling Collections For Tax Cycles

While reviewing the Sheriff's records for collections of additional billings, we noted the following:

- Two (2) additional bills certified to the Sheriff during the 2007 tax cycle were collected during the 2008 tax cycle. Both of these bills should have been turned over to the County Clerk at the expiration of the 2007 tax cycle on May 23, 2008. As such, any payments for these bills should have been directed to the County Clerk. However, the Sheriff accepted payments for \$36 and \$60 on June 19, 2009 and May 12, 2009, respectively.
- One (1) additional bill certified to the Sheriff on July 24, 2009 was deposited and processed with 2008 tax collections. The 2008 tax cycle for regular and additional collections expired on June 19, 2009. Therefore, collections for tax bills certified subsequent to June 19, 2009 should have been processed as 2009 tax collections.

The lack of adequate segregation of duties within the Sheriff's office (as described in comment #2008-01) allowed the collection and comingling of the instances described above to occur and not be detected.

The Sheriff should not collect payments for taxes certified during prior tax cycles and should not comingling collections for tax cycles. Each tax cycle should stand alone, and collections for each tax cycle should be processed independently in separate bank accounts.

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FINANCIAL STATEMENT FINDINGS (Continued):

2008-10 The Sheriff Should Not Collect Payments For Prior Tax Cycle And Should Not Comingle Collections For Tax Cycles (Continued):

We recommend the Sheriff reimburse taxpayers for collection of bills certified during the 2007 tax cycle and turn these bills over to the County Clerk's office as delinquent. The Sheriff should refer these taxpayers to the County Clerk for payment of these bills. Collection of the bill certified during the 2009 tax cycle should be transferred to the 2009 tax account in order to ensure reporting in the proper tax cycle. In addition, the Sheriff should design and implement internal controls to ensure tax cycles stand alone, and collections for each tax cycle are processed independently.

Sheriff's Response: This error occurred when our office was told (By Revenue) we should not include these bills in our Delinquent Sale. Our understanding was we were to collect them. We have since stopped all payments into our tax account after turning over tax bills to clerk.

2008-11 The Sheriff Should Strengthen Internal Controls Over The Collection Of Add-On Fees And Properly Document Waivers Of Penalties And Fees As Required By Statute

Throughout the 2008 tax collection cycle, auditors noted discrepancies between the amount of Sheriff's add-on fees collected and the amount of Sheriff's add-on fees due based on gross collections. Consistently, the computed amount of add-on fees due based on gross collections was greater than the amount of Sheriff's add-on fees collected on monthly reports for regular, additional, gas, oil and unmined coal taxes. Auditors calculated \$3,321 more in add-on fees that should have been collected than was reflected on monthly reports. The Sheriff maintained ten (10) penalty waivers supporting reductions of \$287, leaving an unexplained difference of \$3,034.

The lack of adequate segregation of duties within the Sheriff's office (as described in comment #2008-01) allowed the noncompliance above to occur and not be detected in a timely manner. As a result, taxpayers were not charged penalties owed, which ultimately resulted in taxing districts receiving less than they otherwise would have.

KRS 134.020(5) provides Sheriffs with guidance on the tax collection schedules. This statute notes, that after being subject to collection for ninety (90) days, "a ten percent (10%) penalty shall be added to all tax bills paid thereafter." In addition to this ten percent (10%) penalty, KRS 134.430(3) provides for an additional ten percent (10%) Sheriff's add-on fee for all bills collected from the time the ten percent (10%) penalty becomes applicable bringing the total penalty to twenty one percent (21%).

The Department of Revenue has prepared guidelines stating that reasonable cause as provided for in KRS 131.175 should be used for the waiver of penalties and fees. Under these guidelines, when a tax bill is payable to the Sheriff's office, the Sheriff may waive the penalties that have been added whenever reasonable cause has been demonstrated.

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FINANCIAL STATEMENT FINDINGS (Continued):

2008-11 The Sheriff Should Strengthen Internal Controls Over The Collection Of Add-On Fees And Properly Document Waivers Of Penalties And Fees As Required By Statute (Continued):

We recommend the Sheriff design and implement internal control procedures to ensure collections are made for the proper amounts due. If a penalty waiver is appropriate, the Sheriff should follow the guidelines as established by KRS 131.175 by completing and maintaining the forms to document penalty waivers.

Sheriff's Response: All penalties & add on fees were collected on bills that should have been. The difference came about because of tax payments made in prior months being included during the penalty phase. The office keeps triplicate copies of tax bills as well as computer Bills in order to make sure all taxes are accounted for. These are dated on day collected. They will No longer Be processed in this manner. We only waive penalty that we are allowed to. Taxpayers must prove they did not receive their Bills on time in order to be waived.

2008-12 The Sheriff Has A Known Deficit Of \$5,795 In His Official Tax Account

As noted in the audit, we determined the Sheriff has a known deficit of \$5,795 in his official 2008 tax account. As previously described in comments #2008-01, #2008-02 and #2008-04, internal control procedures were not designed to detect discrepancies in daily and monthly accounting records, reconciliations of manual records to computerized records were not performed, and deposits do not appear to have been made intact. As a result, auditors were unable to determine the nature or cause of the deficit.

If effective internal controls had been designed and implemented within the Sheriff's office, any errors or misstatements could have detected and resolved in a timely manner.

As collector of property taxes, the Sheriff assumes full responsibility for all tax collections and complete distribution of these collections to the proper taxing districts. In order to properly distribute 2008 tax collections, we recommend the Sheriff eliminate the deficit in the 2008 tax account with a deposit of \$5,795 from personal funds. The Sheriff should also settle other refunds and payments as well. We further recommend the Sheriff immediately implement controls to ensure tax collections are processed in a manner that produces reliable accounting records. These controls should include timely reconciliations of manual records to computerized records and depositing daily tax collections intact.

Sheriff's Response: There is no deficit in 2008 Tax account. This is a direct result of software issues. The Sheriff has contact the County Attorney about possible solutions to the software issues.

Auditor's Reply: A deficit exists in the 2008 tax account because the current bank balance plus receivables is not adequate to cover outstanding liabilities. Monthly bank reconciliations performed by the Sheriff's bookkeeper were prepared using an accounting software, not the tax processing software. The procedure to perform bank reconciliations independently of the tax processing software should have detected variances in a timely manner.

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FINANCIAL STATEMENT FINDINGS (Continued):

2008-13 The Sheriff Should Make Tax Payments In A Timely Manner

The Sheriff did not distribute unmined coal rebill taxes collected during July, August, September or October in a timely manner. We noted that checks written to taxing districts for unmined coal collections made during July were distributed on September 18th; August collections were distributed on September 18th; September collections were distributed on October 23rd; and October collections were not distributed until November 30th.

The combination of the lack of adequate segregation of duties within the Sheriff's office and the material weaknesses in the areas of reconciliations and disbursements (as described in comments #2008-01 and #2008-02) caused the noncompliance described above to occur and not be detected and/or resolved. As a result, taxing districts did not receive tax monies collected in a timely manner.

KRS 160.510, 134.300, and 134.320 requires payments be made to taxing districts by the tenth of each month following the collection of taxes.

We recommend the Sheriff implement internal controls to ensure taxes are properly distributed before the tenth of each month. By doing so, the Sheriff will have properly complied with KRS 160.510, 134.300 and 134.320.

Sheriff's Response: We will comply.

2008-14 The Sheriff Should Make Interest Payments To The School And The Fee Account In A Timely Manner

The Sheriff did not distribute interest earned on tax collections to either the school or the fee account in a timely manner.

The lack of adequate segregation of duties within the Sheriff's office (as described in comment #2008-01) allowed this instance of noncompliance to occur and not be detected. As a result, the school and the fee account did not receive their share of income in a timely manner.

KRS 134.140(3)(b) requires the Sheriff to pay monthly "that part of his investment earnings for the month which is attributable to the investment of school taxes." KRS 134.140(3)(d) requires the remaining monthly interest to be transferred to the Sheriff's fee account. The Sheriff should distribute the investment earnings at the same time as monthly tax collections.

We recommend the Sheriff implement internal controls that ensure compliance with KRS 134.140(3)(b) and (d). As such, the Sheriff should pay the amount of interest due to the school and fee account on a monthly basis.

Sheriff's Response: We will comply.

LESLIE COUNTY
PAUL HOWARD, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period May 24, 2008 Through September 28, 2009
(Continued)

FINANCIAL STATEMENT FINDINGS (Continued):

2008-15 The Sheriff Should Sign Official Tax Receipts

The Sheriff did not sign the official tax receipt for real estate and tangible bills, nor did he sign any official receipts for additional bills certified by the County Clerk during the tax cycle. Instead, official tax receipts were signed by office clerks. KRS 133.220(3) states, "The receipt shall be signed and acknowledged by the sheriff or collector before the county clerk, filed with the county judge/executive, and recorded in the order book of the county judge/executive in the manner required by law for recording the official bond of the sheriff." We recommend the Sheriff sign all future official tax receipts in accordance with KRS 133.220(3).

Sheriff's Response: We will comply.

2008-16 Tax Bills Were Certified At An Incorrect Tax Rate

Tax bills were printed using an incorrect real estate rate for the soil conservation district. The district certified the real estate rate at 1.1 per \$100 of assessed value; therefore, tax bills should have reflected a tax rate of 0.011. However, tax bills were printed and calculated taxes due at a rate of 0.01. This resulted in soil conservation taxes of \$1,775 not being billed to taxpayers, nor collected by the Sheriff. This error could have been detected if the Sheriff's office had compared approved tax rates to those printed on the tax bills or if the Sheriff's office had compared the official receipt prepared by the County Clerk to the tax bills generated by the computer system. We recommend the Sheriff consult with the Department of Revenue, County Attorney, and Soil Conservation district for guidance regarding taxes not billed to taxpayers. We also recommend the Sheriff's office develop internal control procedures to ensure tax bills are printed correctly prior to being mailed to taxpayers.

Sheriff's Response: We are consulting with the County Attorney for a solution to this error.

